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11 July 1951

MEMORANDUM FOR: Deputy Director (Administration).

FROM : Auditor

SUBJECT : Audit of Confidential Funds Disbursements and Accounts Relating to the Office of Policy Coordination

As a part of the audit of confidential funds transactions recorded during the period 1 July 1949 through 31 December 1950, a review of the disbursements and accounts identified with project activities of the Office of Policy Coordination has been completed. Pending the submission of a report and certification covering the entire audit, an interim report is here presented in order that you may be informed of this particular phase of the audit.

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With very few minor exceptions, in connection with which corrective action has been taken or initiated, the expenses audited were found to have been incurred for authorized purposes and to conform to the regulations governing the use of confidential funds.

Review of the advance accounts disclosed an unsatisfactory condition in the following two respects:

1. The accounts were not properly maintained so as to provide an adequate record of accountability for funds advanced.
2. Many accounts were seriously delinquent with several involving a situation in which it appears that acceptable accountings may not be obtainable.

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The general ledger accounts as maintained did not provide a segregation of OPC operational and project advances from those of other offices; advances for projects were often recorded in the names of case officers and others who acted merely as intermediaries in delivering funds and were not ultimately accountable; operational, travel and personal advances as well as compensation accruals and payments to agents were frequently intermingled in a single account; credits to accounts involving a multiplicity of advances were not identified with the particular advances to which they pertained; a chronological, item-by-item record of many accounts was not provided since balances had been transferred between accounts as lump-sum amounts; and more than one subsidiary account was maintained for some individuals with credits posted to these accounts without regard to whether the related advances were included in the record to which posting was made.

On the basis of recommendations made during the audit, the general ledger accounts and the procedures for maintaining currently the subsidiary accounts of OPC advances were satisfactorily revised and the Finance Division has undertaken a program of analysis and reconstruction of all outstanding accounts which, when accomplished, should eliminate the unsatisfactory condition first noted. This program will require considerable time for completion and should be expedited to the fullest extent.

Of the accounts outstanding at 31 December 1950 in the names of individuals, many involved unaccounted-for advances which were more than 6 months old at the time of review and dated back as far as September 1948. Also, in numerous instances, advances charged to projects had been outstanding for excessive periods of time without proper accounting. A procedure has recently been developed by the Finance Division which provides for regular review of the outstanding accounts and follow-up measures in connection with delinquent items. However, the effective operation of this procedure is to an extent dependent upon the analysis and reconstruction of accounts aforementioned, and cooperation and implementation by the OPC operating division concerned in securing accountings for funds advanced and refunds of unexpended amounts.

The following is a brief description of the present status of those accounts outstanding at 31 December 1950 which are considered to require especial attention either because of the age of the advances or other considerations: 25X1C

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Throughout the audit of expenses and examination of the advance accounts there was evident a general laxity in accounting promptly for expenditures of funds and in returning unexpended amounts. While in some cases the delays may be fairly attributable to operational considerations, in most instances they appear unjustifiable. Thoroughgoing measures, particularly at the operational level, are required to correct this situation.

In the course of audit those matters of a general nature which were considered to require attention or corrective action were resolved through discussions with interested finance and operational personnel. Notices of Exception, which included specific recommendations for corrective action, were submitted to the Finance Division in connection with accounting matters requiring adjustment.

A material improvement was evident in the financial plans developed by the Covert Coordination Committee for proprietary and subsidy projects over those examined in the preceding audit. These financial plans, while generally providing for the write-off of investments and subsidy payments upon completion of certain financial and legal requirements, contemplate a continuing review as financial reports covering the operations of the projects as such are available. This function is assuming increased importance as the projects pass from a formative to an operating stage and is highly essential from a control standpoint. It is believed that responsibility for this review should logically be placed in the Covert Coordination Committee as a further function, and it is so recommended.

Attached hereto for informational purposes is a schedule showing the total expenses and advances audited, the totals for each project involving funds of \$25,000 or more, and a brief description of those projects involving funds of \$200,000 or more.



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REPORT OF AUDIT
OF
CONFIDENTIAL FUNDS
DISBURSED ON BEHALF
OF
OFFICE OF POLICY COORDINATION

For the Period
1 July 1949 through 31 December 1950

Audit Office
July 1951

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